17. INTRODUCTION OF THE REGIME OF NATIONAL EXHAUSTION OF TRADEMARK RIGHTS IN SERBIA: EMERGING COMPETITION POLICY CONCERN

*

ABSTRACT

This paper analyses the transition from the regime of international to national exhaustion of trademark rights in Serbia. The analysis is divided into three parts. First, the paper provides some remarks about the history of the rule of Blawmakers and academia around the globe. The end of those debates is not in sight, at least for now. The differences in national approaches to the exhaustion of trademark rights remain contested and are no less important than 30 years ago when the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) was being negotiated. This paper aims to contribute to the ongoing discussions by sharing the Serbian experience of the application of the rule of exhaustion

In practice, this means that if person A purchases a car labelled with registered mark X owned by person B (trademark holder), he (person A) shall be free to resell that car to person C, and person C shall be free to resell it to person D, etc. Person B as a trademark holder for mark X shall not have authority to oppose these resales of the car labelled with his mark X. From the latter, we can see that the rule of exhaustion of trademark rights is crucial for enabling a free flow of trademarked goods on the market.

This rule limits the rights of the trademark holder only to the act of first commercialization of the product under his trademark on the market. In that way, the trademark holder has the opportunity to set the first price of the product bearing his mark on the level he deems appropriate (to act as a monopolist). However, he cannot influence the further circulation of such product on the market. The further circulation of the product on the market remains free. In other words, the rule of exhaustion of trademark rights stands as a compromise between interests of trademark holders (to solely use their marks), on the one hand, and interests of the society (for the free flow of goods on the market), on the other hand. Furthermore, the doctrine of exhaustion of rights conferred by a trademark is fully compliant with the essential function of a trademark, as an intellectual property right – the origin function (denoting the trade source from which products bearing the mark stem).[2] The origin function of the trademark is fulfilled considering that the product, which is bearing the protected mark, can be first put on the market solely by the trademark holder.

One of the key questions in relation to the exhaustion of trademark rights is the question of territorial scope. The

[2] See James Mellor and others, *Kerly's Law of Trade Marks and Trade Names* (15th edition, Sweet & Maxwell 2011) 7–10, 512–513; William R. Cornish, David Llewelyn, Tanya Aplin, *Intellectual Property: Patents, Copyrights, Trade Marks and Allied Rights* (7th edition, Sweet & Maxwell 2010) 810–811.

[3] See Irene Calboli, 'Market Integration and (the Limits of) the First Sale Rule in North American and European Trademark Law' 2011 51 Santa Clara Law Review 1241, 1255–1258; Chung-Lun Shen,

in Serbia was estimated at 50.51 billion US dollars[5] (it represented 0.08 percent of the world economy)[6], the value of exports amounted to 19.226,5 million US dollars, while the value of imports amounted to 25.882,5 million US dollars.[7] The major strategic goal of Serbian politics is joining the European Union (EU). Currently, Serbia is an EU candidate country. Negotiations to join the EU commenced in January 2014 and in 2017, the negotiating Chapter 7 – 'Intellectual Property Law' was opened. The objective of this negotiating

hi-3.3 (i)-2.7r(ec)-8..7 ()-16 (J)-113 (U)-3 (o)-11l(.)-6.3 (N)1 ((m)-66(op)2-8.4 (w))-2an <</MCID 53 >>BDC 0 Tc 5 Tw 6 -0 0 6 292.2 715.56 T17

Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trademarks ('First Directive') was in force. The First Directive contained the rule of regional exhaustion of trademark rights in Article 7 ('the trademark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trademark by the proprietor or with his consent…').[12] If we compare the formulations of the provisions on exhaustion from the Serbian Law on Trademark from 2004 to the First Directive, it is obvious that the words of the provision of Serbian Law are influenced by the EU law provision. In spite of that, considering that Serbia in 2004 was not (and still is not) an EU (then EC) member country, Serbian legislators were not obliged to accept Community-wide exhaustion of trademark rights. Instead, Serbian legislators had opted for the regime of international exhaustion of trademark rights, as we can see from the cited provision (goods 'placed in circulation anywhere in the world' under the trademark). Thus, parallel imports were generally allowed in Serbia, except in situations where there is a legitimate reason for the trademark holder to oppose further commercialization of the goods (e.g. especially if a defect or another fundamental change of condition of the products has occurred after they have been put on the market for the first time).

In the early 2000s, the Serbian regime of international exhaustion of trademark rights seemed like a logical solution for a small country that was facing the first years of transitioning from the socialist period. Parallel imports of goods were not deemed negative, the protection and usage of trademarks were not at their peak, and the influence and lobbying of trademark holders were not so powerful back then. Moreover, a rule of international exhaustion was

[12] First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks [1989] OJ L040, art 7.

[13] {ƒƻōƻŘl·ʏ a a l·Ǌʅƻ Ǿƛŏ *Intellectual Property Law* (Magistrat, University of Sarajevo Faculty of Law 2007) 158–

negative) of the switch towards a regime of national exhaustion, neither for consumers nor for the needs of the

as a director and founding member of the Croatian company (the plaintiff's official distributor for the EU), it could be concluded that the Serbian company had control over the Croatian company as its subsidiary.[29] The Serbian and Croatian companies are connected. Second, in the Distribution Agreement between the plaintiff and the Serbian company, it was prescribed that the Serbian company may distribute the plaintiff's products through its subsidiaries. Third, having in mind the former and given that the Croatian company is a subsidiary of the Serbian company (the exclusive distributor), it should be deemed that the rights conferred by plaintiff's trademarks had been exhausted for the territory of Serbia the moment the Slovenian company had acquired the plaintiff's product form the Croatian company. Finally, in this case, there is no trademark infringement while the plaintiff's trademark rights had exhausted.[30]

Logically, the plaintiff was not satisfied with the appellate court's judgment and filed an appeal on points of law, as an extraordinary legal remedy, before the Supreme Court of Cassation. The Supreme Court in 2018 decided to reverse the judgment of the appellate court and confirmed the judgment of the court of first instance. Regarding the issue of exhaustion of trademark rights, the Supreme Court noted two reasons supporting this decision. First, the Croatian company cannot be deemed a subsidiary of the Serbian company, as defined in the Distribution Agreement between the plaintiff and the Serbian company. Second, the application of the Agreement is of limited territorial scope, encompassing Serbia and a few neighboring countries, not including Croatia.

[29] In the Distribution Agreement between the plaintiff and the Serbian company, it has been prescribed that every company in which the Serbian company has more than 50% controlling interest shall be deemed as its subsidiary. The appellate court based its argumentation on that provision.

[30]

4. APPLICATION OF THE NATIONAL EXHAUSTION OF TRADEMARK RIGHTS IN SERBIA

The regime of national exhaustion of trademark rights has been applied for 6 years now in Serbia. Here, first one downside of its application shall be presented – an emergence of the competition policy concern (A). After that, the overview of the reactions of the Commission for Protection of Competition of the Republic of Serbia (Commission), a Serbian national competition authority, associated with that emerging competition policy concern is provided (B) naded (pr[.7 (o)-1n i ee2.7 (ded e516 (cv)-6.2.7 (I (pr[. .035 Th)-5s-3.3 (c)2.3h)-5s3 (on)1E.6 (e)0R)9ir

Trademarks'[54] in 2018 by which it officially proposed a return to the regime of the international exhaustion of trademark rights. The Commission justified this return by referring to two sets of reasons. Firstly, the evident negative influence of the national exhaustion on competition and free movement of goods on the market in Serbia. Secondly, return to parallel imports would bring various positive effects on the market. These expected positive effects include intra-brand competition, a decrease of the present price disparities appeared as a consequence of parallel imports prohibition, increasing the number of potential bidders that procure goods from different sources for public procurement needs, etc. Allowing parallel imports should result in the instigation and development of the well-being of consumers, given that imports from countries offering lower prices of products create pressure on existing merchants in Serbia to reduce prices.[55] In spite of the sound reasoning, the proposal of the Commission was not accepted by Serbian legislators.[56]

Furthermore, it should be noted that regardless of the fact that impediment of competition has been apparent for a long period of time (since 2013-14), the Commission has yet to start systematically conducting procedures against trademark holders who might be misusing the rule of national exhaustion of trade.7 (c)3P <</MC(o)-11.4 (pm)-6 (ent)-.4 (h)-1 [(p03.827 [3 (n)-13. ( )-13.60.002 Tc (e r)-2.6 (en a)us)-14 n(o)-11.3 (m)-6o mhtmh4 (m)-6 (

However, there is a solution to every problem. Three possible ways to approach this competition policy issue will be noted here. The first one and the most radical one is a return to the regime of international exhaustion of trademark rights, as proposed by the Commission. Not only are the upsides of this approach apparent, but it seems the most suitable. The second one represents merely an adaptation to the existing situation, i.e. the national exhaustion. It implies conducting on a large scale the *ex officio* procedures on investigation of competition infringements against targeted trademark holders by the Commission, as a national competition authority. The aim of these Commission's proactive actions would be to prevent and divert the trademark holders from (mis)using the rule of national exhaustion of trademark rights in a way that impedes competition. That should mitigate the negative effects of the rule of national exhaustion of trademark rights on economic welfare. This approach could be implemented immediately based on existing regulations, but it would not solve all the issues. The third one is a moderate approach, which means switch to a regime of regional exhaustion or controlled national exhaustion. The

BIBLIOGRAPHY

Bently L, Sherman B, *Intellectual Property Law* (3rd edition, OUP 2009)

.Ŝăŀ-ǁ2Øŀŏ ±Ɨ *Intellectual Property: Industrial Property and Copyright* (5th edition, University of Belgrade Faculty of Law 2011)

Bonadio E, 'Parallel Imports in a Global Market: Should a Generalised International Exhaustion be the Next Step?' 2011 33(1) European Intellectual Property Review 153–161

Borovac V, 'Trademark Law – From the Protection of the Informational Function of a Trademark to the Protection of a Trademark as a Value in Itself' (DPhil, University of Belgrade 2017)

Calboli I, 'Trademark Exhaustion in the European Union: Community-Wide or International? The Saga Continues' 2002 6(1) Marquette Intellectual Property Law Review <http://scholarship.law.marquette.edu/cgi/viewcontent.cgi?article=1034&context=iplr> Accessed 22 October 2019 47–86

Calboli I, 'Market Integration and (the Limits of) the First Sale Rule in North American and European Trademark Law' 2011 51 Santa Clara Law Review 1241–1282

Calboli I, 'Reviewing the (shrinking) principle of trademark exhaustion in the European Union (ten years later)' 2012 16(2) Marquette Intellectual Property Law Review <https://scholarship.law.tamu.edu/facscholar/363/> accessed 22 October 2019 257–281

Case 291/16 *Schweppes SA v Red Paralela SL and Red Paralela BCN SL* [2017] ECLI:EU:C:2017:990

Central European Free Trade Agreement 2006 (adopted 19 December 2006, entered into force for all countries on 22 November 2007) (2006)

Commercial Appellate Court of the Republic of Serbia, Case bƶ0 tŐ0 мфлркнлмтƩ с !ǈǊƛſ нлмт

Commercial Appellate Court of the Republic of Serbia, Case bƶ0 мм0 tŐ0 орфкнлмсƩ нс ǁdzƴŜ нлмт

Commercial Appellate Court of the Republic of Serbia, Case bƶ0 мм0 tŐ0 рлоркнлмтƩ мр {ŜLJűŜΥōŜǋ нлмт

Commercial Court in Belgrade, Case No. 9. P. 5042/2015, 13 November 2015

Commission for Protection of Competition of the Republic of Serbia, 'Opinion on implementation of competition policy regulations on the institutes of ''Exh-1.84 d(-1.7 (c.6 (i)-1.4 (f)-pp (t)1E>4.7 <(

Studies, 28–57 <https://www.degruyter.com/downloadpdf/j/bjes.2016.6.issue-2/bjes-2016-0011/bjes-2016-0011.pdf> Accessed 20 October 2019

Draft of the Law on Trademarks from July 2019 (Serbia) <http://www.zis.gov.rs/upload/documents/pdf_sr/vesti/Nacrt%20zakona%20o%20%C5%BEigovima.pdf> Accessed 27 October 2019

Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015 to approximate the laws of the Member States relating to trade marks [2015] OJ L336

Explanation of the Draft of the Law on Trademarks from July 2019 (Serbia) <http://www.zis.gov.rs/upload/documents/pdf_sr/vesti/Obrazlo%C5%BEenje.pdf> Accessed 27 October 2019

First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks [1989] OJ L040

Government of the Republic of Serbia, 'Negotiating Position of the Republic of Serbia for the Intergovernmental Conference on Accession of the Republic of Serbia to the European Union for Chapter 7' (January 2017) <http://www.mei.gov.rs/upload/documents/pristupni_pregovori/pregovaracke_pozicije/Negotiating_Chapter_7_pregovaracka_pozicija_EN.pdf> Accessed 20 October 2019

Government of the Republic of Serbia, 'Proposal of the Law on Trademarks 2009' (2009) <https://www.srbija.gov.rs/prikaz/101854> Accessed 22 October 2019

Government of the Republic of Serbia, 'Proposal of the Law on Amendments and Addenda to the Law on Trademarks 2013' (2013) <https://www.srbija.gov.rs/prikaz/175502> accessed 22 October 2019Law on Amendments and Addenda to the Law on Trademarks No. 10/2013 of 2013 (Serbia)

Law on Amendments and Addenda to the Law on Trademarks No. 44/2018 (Serbia)

Law on Industrial Property No. 9947, 10/2013, 55/2014, 35/2016 of 2008 (Albania)

Law on Industrial Property No. 21/2009, 24/11 of 2009 (North Macedonia)

Law on Industrial Property No. 45/01, 96/02, 37/04, 20/06 and 51/06 (Slovenia)

Law on Trademark No. 53/10 (Bosnia and Herzegovina)

Law on Trademark No. 14/2019 (Croatia)

Law on Trademarks No. 72/2010, 44/2012, 18/2014, 40/2016 and 2/2017 (Montenegro)

Law on Trademarks No. 61/04 and 7/05 of 2004 (Serbia and Montenegro)

Law on Trademarks No. 104/2009 of 2009 (Serbia)

a l·ǋ˥ƻǾƛŏ {ɸ a˻ *Intellectual Property Law* (Magistrat, University of Sarajevo Faculty of Law 2007)

a l·ǋ˥ƻǾƛŏ {ɸ a˻ ΨȼKŜ 9ȄKl·ʣăǘƛƻʎ ƻŦ LʎǘŜŦŦŜŎǘʣl·ƒ tǋƻLJŜǋǘȅ wƛ∃Kǘă in the Context of International Free Trade Agreements' in 5ʣŎl·ʎ ±ɸ tƻLJƻǾƛŏ όŜŘǘ˻ *Legal Implications of Trade Liberalization under SAAS and CEFTA* (University of Belgrade Faculty of Law 2018) 139–155

a l·ǋ˥ƻǾƛŏ {ɸ a˻ *Intellectual Property Law and Information Society* όнyŘ ŜŘƛǘƛƻy˻ {ƒʣŎōŜyƛ ∃ƒl·ăyƛ˥ нлмyύ

a l·ǋ˥ƻǾƛŏ {ɸ a˻ tƻLJƻǾƛŏ 5ɸ ±˻ *Intellectual Property Law* (6th edition, University of Belgrade Faculty of Law 2018)

a ƛƒl·ŘƛyƻǾƛŏ ½˻ *Intellectual Property Law* (University of Kragujevac Faculty of Law 2009)

t2ǈ2Ǿǃŏ 5Ʃ *Exclusive Intellectual Property Rights and Free Competition* (University of Belgrade Faculty of Law 2012)

Republic Secretariat for Public Policies, 'Analysis on the Effect of the Law on Amendments and Addenda to the Law on Trademarks' (December 2012) <http://vs3836.cloudhosting.rs/misljenja/569/ana/Analiza%20efekata%20Nacrta%20zakona%20o%20izmenama%20i%20dopunama%20Zakona%20o%20zigovima.pdf> Accessed 24 October 2019

Simeonov D, 'Parallel Import: EU and South East Europe' (Balkan Legal Forum, Romania, 2006) <https://www.bma-law.com/wp-content/uploads/2011/02/Simeonov-Parallel-Import-Lecture.pdf> Accessed 28 October 2019 1–18

Shen C-L, 'Intellectual Property Rights and International Free Trade: New Jurisprudence of International Exhaustion Doctrine under the Traditional Legal System' 2012 7(3) Journal of International Commercial Law and Technology 176–211

{ǈl·ă2ʔŜǾƛŏ {Ʃ Ψ5ŜŦŜŎű 2Ǌ !fűŜǊƛyƎ 2Ŧ D22Řă a l·ǊʅŜŘ ǿƛth a Trademark Occurring after Its First Entering the Market' 2009 Law and Economy 106–117

Stabilisation and Association Agreement (SAA) between the European Communities and their Member States and the Republic of Serbia 2008 (signed in April 2008, entered into force on 1 September 2013) (2008)

Statistical Office of the Republic of Serbia, 'External Trade, December 2018' (News, 31 January 2019) <http://www.stat.gov.rs/en-US/vesti/20190131-spoljnotrgovinska-robna-razmena-decembar-2018> Accessed 20 October 2019

Statistical Office of the Republic of Serbia, 'Gross Domestic Product, 2018' (News, 1 October 2019) <http://www.stat.gov.rs/en-us/vesti/20191001-bruto-domaci-proizvod-2018/?s=090201> Accessed 20 October 2019

Supreme Court of Cassation of the Republic of Serbia, Case No. Prev. 381/2017, 17 May 2018

Trading Economics, 'Serbia GDP' <https://tradingeconomics.com/serbia/gdp> Accessed 20 October 2019

Varga S, 'The Geographical Scope of Trademark Exhaustion and Parallel Trade in the Republic of Serbia Law' in Miodrag aƛŏ2Ǿƛŏ όŜŘύƩ *Services and Protection of Service Users* (University of Kragujevac Faculty of Law 2015) 633–649

WIPO, 'Interface between Exhaustion of Intellectual Property Rights and Competition Law' (CDIP/8/INF/5, 1 September 2011) <https://www.wipo.int/meetings/en/doc_details.jsp?doc_id=182864> Accessed 27 October 2019

Zappalaglio A, 'International Exhaustion of Trade Marks and Parallel Imports in the US and the EU: How To Achieve Symmetry?' 2015 5(1) Queen Mary Journal of Intellectual Property 68–86